

## V. DIVIDENDS, INTEREST, AND RENT

The state estimates of personal dividend income, personal interest income, and rental income of persons are presented together. These three components accounted for over 18 percent of total personal income at the national level in 2007 (see table F). The estimates consist of the income that is received by persons and by private and government employee retirement funds on behalf of persons.<sup>1</sup> The national estimates of dividends, interest, and monetary rent are based on data that are not available for states. The state allocations of the national estimates of the income received by individuals are based mainly on individual income tax data.

### Personal Dividend Income

Personal dividend income are the payments in cash or other assets, excluding the corporations' own stock, that corporations in the United States or abroad make to persons who are U.S. residents. Personal dividend income accounted for 6.8 percent of total personal income at the national level in 2007 (table F). The state estimates of personal dividend income are prepared in four parts: Dividends received by individuals, dividends received by private and government employee retirement funds, dividends received by nonprofit institutions, and dividends received, retained, and reinvested by fiduciaries.

**Dividend income received by individuals.**—Dividend income received by individuals is the sum of two components: dividends received from S-corporations and all other dividends.

State estimates of dividends, except those received from S-corporations, are based on tabulations of the dividends reported by individuals on IRS Form 1040 and included in the IRS Individual Master File (IMF). These estimates are used to allocate the national estimate to states.

Dividends received by individuals from S-corporations is the sum of passive and nonpassive income less the sum of passive and nonpassive losses and section 179 expenses. These amounts are reported on Schedule E “*Supplemental Income and Loss*” of Form 1040. State estimates of S-Corporation dividends for 1994-2006 are based on an unpublished sample of Schedule Es prepared by the Statistics of Income Division of the Internal Revenue Service (IRS). A centered, 3-year moving average of these dividends is used to allocate the national estimate to states. For years prior to 1995 and subsequent to 2005 the moving averages cannot be calculated. They are extrapolated using the growth rates of all other dividends.<sup>2</sup>

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<sup>1</sup> Persons includes individuals and quasi-individuals (nonprofit institutions that primarily serve individuals, private noninsured welfare funds, and private trust funds administered by fiduciaries). See “Persons” and “Fiduciary” in Chapter XIII Glossary.

<sup>2</sup> These tabulations are published in the *SOI Bulletin* about 18 months after the end of the reference year; therefore, the state estimates for years in which IMF tabulations are not available are extrapolations using past trends in the IMF data, as determined from a regression of the growth rate in the IMF data for each state on its national counterpart. Occasionally unpublished SOI sample data are used instead of the *SOI Bulletin* tabulations.

**Dividend income received by private and government employee retirement funds.**—This income comprises the dividends received by private noninsured pension plans, the Federal civilian employees' Thrift Savings Plan (TSP), and by state and local government employee retirement plans.<sup>3</sup> For each of these categories a portion of the dividends is assumed to be received on behalf of current employees, and a portion on behalf of retired persons and their survivors.<sup>4</sup>

The currently-employed portion of the dividends received by private noninsured pension funds is allocated to states using state-of-residence estimates of wage and salary disbursements.<sup>5</sup> State estimates of the retired portion reflect the geographic distribution of state estimates of Old-age, survivors, and disability insurance (OASDI) payments.

For the dividends received by the TSP, the state estimates of the currently employed portion are based on residence-adjusted state estimates of Federal civilian wages and salaries. State estimates of the retired portion are based on state estimates of Federal civilian retirement benefits by state.<sup>6</sup>

For the dividends received by state and local government employee retirement funds, the state estimates of both the currently employed and the retired portions are based on state-level data for the dividends received by the funds from the Census Bureau's annual *Finances of Employee-retirement Systems of State and Local Governments*. These data are available beginning with 1994. The currently employed portion is extrapolated to earlier years by the relative change in state and local government wages and salaries. The retired portion is extrapolated by the relative change

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<sup>3</sup> The dividends received by fully insured pension funds are counted under the imputed interest received from life insurance carriers.

<sup>4</sup> For private pension plans, the division of dividends into the currently-employed and the retired portions is based largely on participation rates in the social security retirement system. The division corresponds roughly to the relative numbers of participants—those making contributions and those receiving benefits. For the Federal civilian and the state and local government retirement plans, the division between the currently employed and retired portions is roughly in accord with participation rates in those systems, based on data provided by the Office of Management and Budget (for the federal plan) and on information from the Census Bureau's annual *Finances of Employee-retirement Systems of State and Local Governments* (for the state and local government plans).

<sup>5</sup> Prior to the conversion from SIC to NAICS, the state estimates of the currently-employed portion of dividend income received by private pension funds were prepared using residence-adjusted employer contributions to these funds as the geographical allocator. The state-of-residence estimates of employer contributions to private pension plans were based on year 2000 benchmark estimates: The 2000 national estimate of the contributions for each Standard Industrial Classification two-digit industry was allocated to states in proportion to the earnings of wage and salary workers employed in that industry as reported in the 2000 Census of Population. The 2000 estimate for each industry was then extrapolated back to the 1990 benchmark and forward to the latest year by the relative change in the BEA estimates of wages and salaries for the industry. The estimates by industry were then summed to the all-industry level.

<sup>6</sup> Federal civilian employee retirement and disability payments are benefits (including lump-sum withdrawals) received by retired Federal Government employees and their survivors from the following retirement plans: The Civil Service Retirement System; the Basic Benefit Plan of the Federal Employees Retirement System; and special contributory and noncontributory retirement plans, such as those of the Foreign Service, the Federal Reserve Board, and the Tennessee Valley Authority. The national estimate of these payments is allocated to states in proportion to data for the payments for September of each year from the Office of Personnel Management.

in benefits paid by the plans.<sup>7</sup> Both portions are then adjusted to a place-of-residence basis to yield the allocating series for the dividends received by the funds.

**Dividend income received by nonprofit institutions.**—The national estimate of dividend income received by nonprofit institutions is allocated to the states in proportion to the annual state estimates of the civilian population prepared by the Census Bureau.

**Dividend income retained by fiduciaries.**—The available data for dividend income retained by fiduciaries do not reflect the location of the individuals on whose behalf the dividends are received. Therefore, the national estimate of the dividends *retained* by fiduciaries is allocated to states in proportion to IMF dividends, which includes the dividends *distributed* by fiduciaries to individuals.

## Personal Interest Income

Personal interest income is the interest income (monetary and imputed) from all sources is received by individuals, private and government employee retirement plans, nonprofit institutions, and by estates and trusts. Personal interest income accounted for over 10 percent of total personal income at the national level in 2007 (table F). Monetary interest accounted for 6.4 percent of total personal income, and imputed interest accounted for about 4 percent.

### Monetary interest income

The state estimates of monetary interest income are prepared in the following parts: The net interest accrued on unredeemed series E, EE, H, and HH bonds issued by the Federal Government and owned by individuals, the other interest received by individuals, the interest received by private and government employee retirement plans, the interest received by nonprofit institutions, and the interest retained by fiduciaries.

**Net accrued interest income from Federal Government savings bonds.**—The state estimates of the net accrued interest on unredeemed series E, EE, H, and HH bonds are prepared in two steps.<sup>8</sup> First, the national estimate of the total interest accrued on savings bonds during a year, obtained from the *Treasury Bulletin*, is allocated to the states in proportion to the value of the unredeemed bonds at the end of the year, and the national estimate of the accrued interest realized from bonds redeemed during the year, also obtained from the *Treasury Bulletin*, is allocated to the states in proportion to the value of the unredeemed bonds at the end of the preceding year.<sup>9</sup> Second, the state estimate of the realized interest is subtracted from the state estimate of the total accrued interest to yield the state estimate of the net accrued interest.

**Other interest income received by individuals.**—Other interest income consists largely of interest that is reportable for Federal individual income tax (including the nontaxable interest from municipal bonds); it also includes the interest accrued on

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<sup>7</sup> These benefits were formerly published as a transfer payment (state and local government employee retirement payments) in the State Personal Income Account. See the methodology published on the *State Personal Income 1929-97* CD ROM.

<sup>8</sup> The net accrued interest is the excess of the interest accrued on the bonds during the year over the accrued interest that was realized from the bonds redeemed during the year. The interest accrued on unredeemed bonds is treated as if it were received by individuals as it accrues because it is available to the individuals.

<sup>9</sup> The state data series for the value of the unredeemed bonds are tabulated by the Bond Division of the Department of the Treasury.

individual retirement arrangements (IRAs) and other tax-deferred savings accounts in the year in which the interest is earned. (The IMF interest data do not include interest on tax-deferred savings accounts because it is reported on tax returns as part of taxable withdrawals, not as interest, in the year in which the funds are withdrawn.)

The state estimates are based on IMF interest data supplemented by a series prepared from IMF dividends data.<sup>10</sup> The supplementation is necessary because the reportable interest received by individuals from regulated investment companies, such as money market mutual funds, is reported as dividend income on IRS Form 1040.

The state estimates are prepared in four steps. First, the national ratio of the reportable interest received by individuals from regulated investment companies to the sum of this interest and the estimate of the dividends (excluding such interest) received by individuals is calculated.<sup>11</sup> Second, this ratio is multiplied by the IMF dividends for each state to yield a first approximation of the interest from regulated investment companies that is reported as dividends. Third, the first approximations are added to the IMF state tabulations of interest to yield provisional state estimates of interest. Fourth, the national estimate of the interest is allocated to states in proportion to the provisional estimates.

**Interest income received by private and government employee retirement funds.**—This income comprises the interest received by private noninsured pension funds, the Federal civilian employee retirement funds (including the TSP), the military retirement fund, and by state and local government employee retirement funds.<sup>12</sup> For each fund, a portion of the interest is assumed received on behalf of current employees, and a portion on behalf of retired persons and their survivors.<sup>13</sup>

The national estimate of the currently-employed portion of the interest received by private noninsured pension funds is allocated to states using state-of-residence estimates of wage and salary disbursements.<sup>14</sup> The state estimates of the retired portion are allocated in proportion to the geographic distribution of OASDI payments.

For the interest received by the Federal civilian funds, the state estimates of the currently-employed portion are based on residence-adjusted state estimates of Federal civilian wages and salaries, and state estimates of the retired portion, on state estimates of Federal civilian retirement benefits by state.<sup>15</sup>

The national estimate of the interest received by the military retirement fund is split into that attributed to current annuitants and that attributed to active duty personnel and reservists using the present value of future benefits of each group from the *Valuation of the Military Retirement System*. The interest attributed to active duty personnel and reservists is allocated to states on the basis of residence-adjusted state estimates of the

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<sup>10</sup> See footnote 3.

<sup>11</sup> The national estimate of the reportable interest received by individuals from regulated investment companies is prepared as part of the reconciliation of personal income and adjusted gross income. See Mark A. Ledbetter, "Comparison of BEA Estimates of Personal Income and IRS Estimates of Adjusted Gross Income," *Survey of Current Business* 85 (November 2005): 30-35.

<sup>12</sup> The interest received by fully insured pension funds are counted under the imputed interest received from life insurance carriers.

<sup>13</sup> See footnote 5. The division of the interest received by the military retirement fund into the currently employed and retired portions is based on information obtained from the Department of Defense.

<sup>14</sup> See footnote 6.

<sup>15</sup> See footnote 7.

base pay of active-duty military personnel, and the interest attributed to current annuitants is allocated on the basis of state estimates of military retirement benefits.<sup>16</sup>

For the interest received by the state and local government employee retirement funds, the state estimates of both the currently-employed and the retired portions are based on state-level data for the interest received by the plans from the Census Bureau's annual *Finances of Employee-retirement Systems of State and Local Governments*.<sup>17</sup> These data are available beginning with 1994. The currently employed portion is extrapolated to earlier years by the relative change in state and local government wages and salaries. The retired portion is extrapolated by the relative change in benefits paid by the plans.<sup>18</sup> Both portions are then adjusted to a place-of-residence basis to yield the allocating series for the interest received by the funds.

**Interest income received by nonprofit institutions.**—Because state data are unavailable, the national estimate is allocated to the states in proportion to the annual state estimates of the civilian population prepared by the Census Bureau.

**Interest income retained by fiduciaries.**—The available data for this interest do not reflect the location of the individuals on whose behalf the interest is received. Therefore, the national estimate of the interest retained by fiduciaries is allocated to states in proportion to IMF interest, which includes the interest *distributed* by fiduciaries to individuals.

### **Imputed interest income**

Imputed interest income consists of (a) the value of depositor services furnished without payment by financial intermediaries except life insurance carriers, (b) premium supplements for property and casualty insurance, and (c) the interest received from life insurance carriers.<sup>19</sup>

The imputed value of depositor services is an estimate of the value of services such as checking and record keeping that financial intermediaries (banks, credit agencies and regulated investment companies) provide to persons without an explicit charge.

Premium supplements for property and casualty insurance is the property income that property and casualty insurance carriers earn on reserves held to pay claims. This income is deemed to be paid out to policyholders and then paid back as premium supplements even though in actuality the insurance companies retain the property income.

The imputed interest received from life insurance carriers consists of the property income life insurance carriers earn on life insurance and annuity reserves. This income is deemed to be paid out to policyholders and then paid back as premium supplements even though in actuality the insurance companies retain the property income.

An aggregate national estimate of imputed interest is allocated to states in proportion to interest reported by individuals to the IRS, as tabulated from the IMF.

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<sup>16</sup> National estimates of military retirement benefits, including the benefits of Coast Guard personnel, and their survivors are allocated to states in proportion to payments data for September that are provided each year by the Department of Defense.

<sup>17</sup> The interest received by the funds is derived as a residual from the published data: Total investment income less dividends and capital gains.

<sup>18</sup> See footnote 8.

<sup>19</sup> See "Imputation" in Chapter XII Technical Notes.

## Rental Income of Persons

The rental income of persons with capital consumption adjustment is the net current-production income of persons from the rental of real property except for the income of persons primarily engaged in the real estate business; the imputed net rental income of owner-occupants of housing; and the royalties received by persons from patents, copyrights, and rights to natural resources.<sup>20</sup> The rental income of private noninsured pension funds is imputed to persons and counted as part of rental income of persons with capital consumption adjustment. The estimates include BEA adjustments for uninsured losses to fixed capital caused by disasters, such as hurricanes and floods.

The national estimate of the rental income of persons accounted for 0.3 percent of total personal income in 2007 (table F). Monetary rental income accounted for 0.5 percent of total personal income, and imputed rental income accounted for -0.2 percent.

### Monetary rental income

The state estimates of monetary rental income are prepared in the following parts: The net rent and royalties received by individuals, the net rent and royalties received by private noninsured pension funds, the net rent and royalties received by nonprofit institutions, and the net rent and royalties retained by fiduciaries.

**Net rent and royalties received by individuals.**—Because the available state data are unreliable, the national estimate of the net rent and royalties received by individuals, excluding net rents to farm operators, is allocated to states in proportion to the IMF tabulations of the gross rent and royalties reported on Schedule E of Form 1040.<sup>21</sup> The national estimate of net monetary rents received by farm landlords is allocated to the states in proportion to the market value of land and buildings from the Census of Agriculture. Data between census years are interpolated and data from the 1997 Census are used for subsequent years

**Net rent and royalties received by private noninsured pension plans.**—A portion of such rent and royalties is assumed to be received on behalf of current employees, and a portion on behalf of retired persons and their survivors.<sup>22</sup> The national estimate of the currently-employed portion of the dividends received by private noninsured pension funds is allocated to states using state-of-residence estimates of wage and salary disbursements.<sup>23</sup> The state estimates of the retired portion reflect the geographic distribution of OASDI payments.

**Net rent and royalties received by nonprofit institutions.**—Because state data are unavailable, the national estimate of the net rent and royalties received by nonprofit institutions is allocated to the states in proportion to their civilian population as estimated by the Census Bureau.

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<sup>20</sup> The net rental income received by persons who are primarily engaged in the real estate business is included in nonfarm proprietors' income.

<sup>21</sup> The available estimates from the Internal Revenue Service for net rent are unreliable as a basis for the estimation of monetary rent because of large sampling errors in the estimates for the less populous states. For years in which gross rent and royalties are unavailable, the estimates are extrapolated using total personal income.

<sup>22</sup> See footnote 5.

<sup>23</sup> See footnote 6.

**Net rent and royalties retained by fiduciaries.**—The national estimate of net rent and royalties retained by fiduciaries is allocated to states using tabulations of “total estate and trust income or (loss)” from Schedule E of IRS Form 1040.<sup>24</sup> This item consists mainly of rental income received by individuals from fiduciaries. It is assumed that the geographic distribution of this income is similar to the distribution of net rent and royalties retained by fiduciaries.

### **Imputed rental income**

Imputed rent is an imputation for the net rental income of owner-occupied housing. It is based on the assumption that owner-occupants are in the rental business and that they are renting the houses in which they live to themselves: As tenants, they pay rent to the landlords (that is, to themselves); as landlords, they collect rent from their tenants (that is, from themselves), they incur expenses, and they may have a profit or a loss from the rental business.<sup>25</sup> The state estimates of imputed net rental income are prepared in two parts: Imputed net rent received by the owner-occupants of mobile homes and imputed net rent received by the owner-occupants of all other dwellings.

**Imputed net rent from mobile homes.**—National estimates of imputed net rent from mobile homes for census years were allocated to the states in proportion to the number of mobile homes from the Census of Housing. Intercensal estimates of the number of mobile homes are straight line interpolations of the census benchmarks. The 2000 estimates are extrapolated forward using the aggregate value of mobile homes from the American Community Survey

**Imputed net rent from all other dwellings.**—National estimates of imputed net rent from all other dwellings, excluding disaster adjustments, were allocated to states using estimates of the rental value of owner-occupied dwellings. For census years, estimates of the gross rental value of owner-occupied, single-family dwellings were derived from Census of Housing data. Intercensal estimates of gross rental values are straight-line interpolations of the census benchmarks. The 2000 estimates of gross rental values were extrapolated forward using the aggregate value of all owner-occupied dwellings from the American Community Survey. National disaster adjustments are distributed to states on the basis of reports of insured losses from private sources and data from the Federal Emergency Management Agency.<sup>26</sup>

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<sup>24</sup> For years in which the Schedule E data are not available, the previous year’s values are used.

<sup>25</sup> See “Imputation” in Chapter XII Technical Notes.

<sup>26</sup> See “Disaster Adjustments” in Chapter XII Technical Notes.